

**OFFICE OF THE TREASURER****State Treasurer's Office Review of  
Governor Schwarzenegger's Infrastructure Proposal**

January 9, 2006

The State Treasurer's Office has conducted an initial review of Governor Schwarzenegger's infrastructure proposal and found that it does not live up to its own stated commitments, contains misstatements of financial and other information, and leaves many significant questions unanswered.

**The governor's infrastructure proposal provides no real increase in the rate of infrastructure investment in California beyond current levels.**

- Governor Schwarzenegger's ten-year, \$222 billion infrastructure proposal is being described as the most significant wave of infrastructure investment in California's recent history. But much of that proposal is composed of existing or already anticipated local, state, and federal funds and previously authorized bonds. In reality, the proposal does not increase the rate of investment beyond the level since 2000, and may result in a decrease.
- \$100.8 billion of the financing in the proposal is not new money at all, but money already designated and authorized for infrastructure investment. For example, \$47 billion would come from already approved federal transportation authorizations and existing state fuel taxes. Another \$21.9 billion would be from previously approved state school bonds and matching funds from local school districts (e.g. local school bonds). And \$21 billion would come from existing federal water supply funds and investments from local water agencies.
- \$68 billion would be financed with new general obligation bonds over the next ten years. That's a pace essentially on par with the period from 2000 through 2005 when California voters approved bonds for schools, water systems, the environment and stem cell research and facilities totaling over \$42 billion, an average of \$7.1 billion a year. The governor's proposal would authorize \$68 billion in infrastructure bonds over 10 years, an average of \$6.8 billion a year – a 4 percent reduction in the rate of bond authorization.
- The proposal claims \$53 billion in new funding sources. However, the only actual new funding source is a proposal to levy \$5 billion in new water fees. (See below for detail.)

**The proposal counts new funding that isn't new funding.**

- \$47 billion of the claimed new funding in the Governor's proposal is, in fact, from existing or speculative sources:
- \$14 billion in revenue bonds that borrow against future state gas tax and weight fee revenues, which are used for state highway maintenance, operations, and rehabilitation.
- \$3.1 billion in GARVEE (Grant Anticipation Revenue) bonds that borrow against the future flow of already approved federal transportation funding;
- \$5 billion in federal transportation funds that do not exist today, which Governor Schwarzenegger claims he will collect from Washington in the future;

- \$9 billion from county transportation sales taxes that are already in place or subject to future local voter approval by a two-thirds vote;
- \$16 billion in public-private transportation investment, for which there is no specific plan or sources detailed.

**The proposal misstates California's debt service ratio by artificially excluding \$10.3 billion in deficit borrowing bonds.**

- The proposal says the State's current ratio of debt service to General Fund revenue is 4.5 percent and claims that even with the proposed new bond issues the state's debt service ratio will not rise above 6 percent over the next 10 years. The proposal misstates the debt service ratio by excluding from its calculation the \$10.3 billion in outstanding deficit borrowing bonds that were proposed by Governor Schwarzenegger and issued in 2004. Those bonds are backed by the General Fund and dedicated tax revenues. When the debt service on these deficit bonds is included, the state's true current debt ratio is 5.8 percent. The Legislative Analyst's Office calculates the current debt service ratio, including the deficit bonds, at 5.9 percent.

**The proposal breaks its own proposal to keep the debt service ratio under 6 percent of the General Fund.**

- When the debt service ratio under the Governor's proposal is accurately calculated, it starts at 5.8 percent and punctures the 6 percent level in the 2006-07 year. It climbs to 7 percent by 2009-10, and, when the Governor's apparent proposal to accelerate repayment of deficit bonds is counted, it exceeds 8 percent in 2008-09.
- The proposal calls for a constitutional amendment to limit the State's debt service ratio to 6 percent of the General Fund, locking an arbitrary number into the constitution. The debt service ratio is only one factor of many that is used to evaluate the appropriate level of debt. In the past, Wall Street rating agencies compared the debt levels of different states by computing the ratio of debt service to revenues. But the rating agencies stopped publishing this comparison in 1997. The rating agencies themselves look to a variety of measures, especially whether states have a truly balanced budget. The Governor's proposal is a financial gimmick, similar to Governor Schwarzenegger's Proposition 76, overwhelmingly rejected by voters last November.

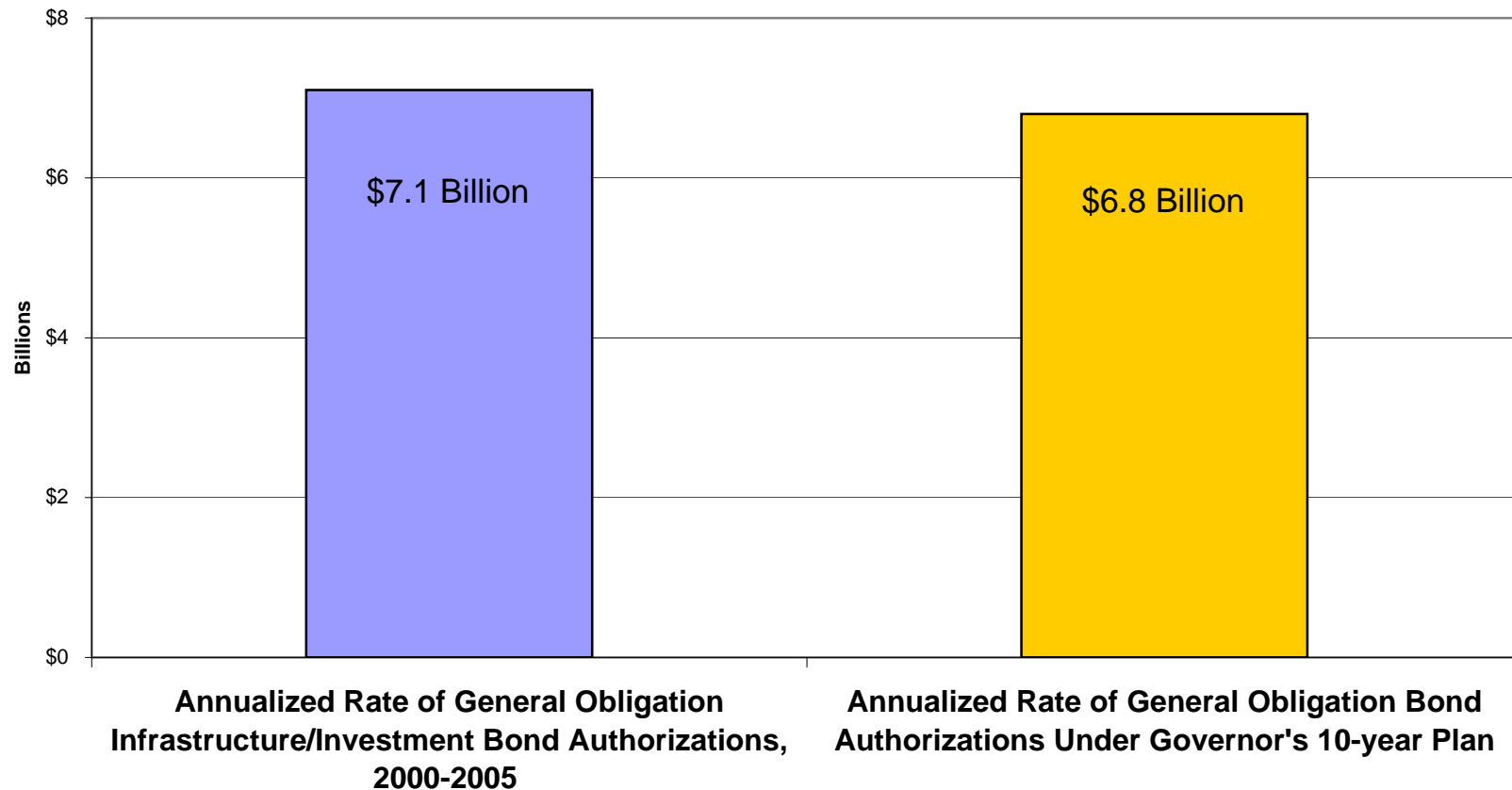
**The plan proposes accelerated repayment of deficit bonds without detailing the impact on schools, colleges, health care and other critical investments and services.**

- To make the numbers work, the Governor's proposal appears to accelerate the repayment of the State's deficit borrowing bonds by using \$3.1 billion that would otherwise be available to the General Fund over the next five years.
- However, the proposal does not specify what other program funding will be reduced to accomplish this goal and what might be the impact on schools, higher education, health care and other critical services and investments.

**Governor Schwarzenegger's proposal asks for voter approval of tens of billions of dollars of bonds and locks in ten years of California infrastructure investment without first having presented a comprehensive needs assessment.**

- The Governor proposes, "that the Legislature approve the entire ten-year plan as a single package," which would lock California's infrastructure investment in place for a decade.
- The proposal also asks the Legislature and voters to approve a \$68 billion bond package in the absence of a comprehensive needs assessment which identifies California's highest priority infrastructure needs and the most cost-effective, environmentally responsible way to meet those needs. In 2004 and 2005, the Administration did not even provide the Legislature and the public the legally required five-year infrastructure plan that must accompany the Governor's budget.







## **Governor Schwarzenegger's Infrastructure Proposal Provides No Real Increase in the Rate of General Obligation Bond Authorizations**



Stem cell bonds are included in this analysis. If stem cell bonds, for other than facilities, are excluded from this analysis, the annualized rate of general obligation bond authorizations from 2000 through 2005 would be \$6.6 billion.

# GOVERNOR SCHWARZENEGGER'S PROPOSAL COUNTS ON NEW FUNDING THAT ISN'T NEW FUNDING

*Of \$53 Billion in Claimed New Funding, \$47 Billion is from Existing or Speculative Sources*

<i>New Funding?</i>	<i>Proposed Source</i>	<i>Status</i>
	<i>\$14 billion in revenue bonds</i>	<i>Borrowing against future gas tax and weight fee revenues used for highway purposes</i>
	<i>\$3.1 billion in GARVEE bonds</i>	<i>Borrowing against already approved future federal transportation funding</i>
	<i>\$9 billion in county transportation sales taxes</i>	<i>Local taxes already in place or subject to voter approval by 2/3 vote</i>
	<i>\$5 billion in new federal funding</i>	<i>Not in place; Schwarzenegger Administration claims it will collect from Washington</i>
	<i>\$16 billion in private investment</i>	<i>No specifics or sources detailed</i>
	<i>\$5 billion in new water fees</i>	<i>Proposed in Governor Schwarzenegger's plan</i>

# California's Debt Service Ratio

